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SUBJECT: MINISTER OF FINANCE ON NON-SOVEREIGN DEBT ISSUES
AND SIEMENS DEAL

Classified By: Economic Minister Counselor Marc Wall for reasons 1.4(b)
and (d)

¶1. (C) Summary: EMIN and TREASATT reviewed the status of Iraq's non-Paris Club country sovereign debts in a meeting with Minister of Finance Jabr on December 17. Iraq owes between USD 50-80 billion to non-Paris Club countries, though some of these countries, such as China and Poland are modeling their debt relief on Paris Club terms. Positive momentum from the expected last tranche of Paris Club debt forgiveness following the IMF's successful second review of Iraq's Stand-By Arrangement should be channeled into resolving Iraq's outstanding sovereign debts. Iraq seeks assistance from the USG in working with its lenders. Jabr also noted that while the Minister of Electricity would be signing a contract with Siemens for generators, he "did not support this contract," and would not provide the same level of financial guarantee that General Electric had received in its recently signed agreement with the GOI. End summary.

Non-Paris Club Sovereign Debt

¶2. (C) Jabr agreed with CETI that given the expected upcoming final tranche of Paris Club debt forgiveness, positive momentum should be applied to working through its remaining debt issues. Jabr said that there was between USD 50 to USD 80 billion sovereign debt owed to non-Paris Club countries. He then gave a tour d'horizon of the major outstanding debt issues.

¶3. (C) Poland: According to Jabr, all technical details have been decided and a debt-relief agreement is ready for signing by the respective Ministers of Finance. Apparently there are political issues in Poland that make such a signing ceremony inconvenient at this time, though he is planning to go to Poland when invited. TREASATT noted that Treasury Deputy Secretary Kimmitt had just sent a letter expressing support for the forgiveness of Iraq's debt. Jabr responded, "Please thank Mr. Kimmitt for always doing what he can to help our people."

¶4. (C) Tunisia: Like Poland, the debt negotiations with Tunisia are essentially done and Iraq has agreed to pay in cash 10.25 percent of the approximately USD 100 million owed. Jabr was invited to Tunis in mid-December for a signing deal, but deferred the trip to January so that he could continue working on Iraq's FY2009 budget. There are also four Iraqi planes that remain in Tunisia from the 1990s, including a Boeing 747 outfitted as Saddam's presidential plane. Though only used once, this plane and the others, have not been maintained and will most likely be sold as scrap.

¶5. (C) Qatar: Jabr said that when he has attempted to discuss debt issues with the Government of Qatar, the Qataris' response has been: "Debt? What debt?" Jabr will seek a letter from the Qatari Government stating that the GOI does not owe them any sovereign debt.

¶6. (C) Kuwait: Saying that "water is life," Jabr was open to a concept that had been floated in the press by Kuwaiti MPs of exchanging water for debt, but noted that the GOI had not received any formal proposal from the Kuwaiti Government. There had been no progress on the stalled agreement to resolve the Canadian court compensation case, but Jabr said he was hoping to pay only USD 300 million. Jabr proposed to the Kuwaitis that, with the fall in oil revenue and the stresses this was causing on Iraq's reconstruction budget, the UN claims commission reparation amount be reduced from 5 percent to 1 or 2 percent of oil revenue. The Amir of Kuwait Sabah responded that "Salafists in the parliament" would not allow the Kuwaiti Government to do this, but since the payment amount is determined by the UN, the best approach would be for the Security Council to make the change. This would be politically palatable to the Kuwaiti Government, Jabr believed, and free up much-needed income for Iraq. "We do not want to cancel what we owe, but we have to reduce the percentage and pay over a longer period of time," he added.

¶7. (C) Saudi Arabia: "Saudi Arabia has made a mistake in how much they think we owe them," said Jabr. According to the GOI's records, the money that was loaned to Iraq in the 1980s was interest-free. The Government of Saudi Arabia is insisting, however, that they are owed USD 40 billion, which includes interest, something that the GOI will "never be able to agree to." Jabr requested USG assistance in persuading the Saudi Government to solve this "political problem." Until there is an agreement on how much is owed, we cannot even start the process of negotiations, he added. The Finance Minister is in a weak position and has no flexibility,

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according to Jabr.

¶8. (C) Jordan: Jabr is aware that Prime Minister Maliki and Jordanian King Abdullah have talked debt issues, but he has yet to receive a read-out of these discussions.

¶9. (C) UAE: The Emirati Government has announced that it will forgive 100 percent of Iraq's debt and sent a draft agreement to Iraqi Government. The Ministry of Finance is in the process of "studying" this draft.

¶10. (C) China: The Chinese Government has agreed to forgive 80 percent of Iraq's USD 8.5 billion debt along Paris Club terms. The GOI and Chinese are now in discussions over how the remaining 20 percent should be paid -- either 10 percent in cash up front or over 23 years. Jabr said that he is pressuring the Chinese Government to forgive the entire debt since the GOI has allowed the Chinese to develop an oil field in Wasit Province.

¶11. (C) Egypt: There are two debt issues outstanding -- both sovereign debt and workers' remittance money owed to Egyptian workers. Jabr says that Iraq owes USD 340-400 million in remittances and does not plan to seek a reduction of this money. He is hesitant to simply pay it, however, as this would reduce leverage on the Government of Egypt to forgive the bilateral debt. There has been no movement on the bilateral debt issue, he said.

Siemens Generator Deal

¶12. (C) Saying that Siemens "came to Iraq at a bad time, they should have come here three years ago," Jabr said that he "would not guarantee" payment. (Note: A deal with Siemens was signed on December 21. End note.) Citing concerns about the declining price of oil and its effect on Iraq's ability to finance capital expenditure projects, Jabr said he, as Minister of Finance, would not provide the same "guarantee of payment" that had been recently provided to General Electric.

"If the Council of Ministers tells me to pay, I of course will pay," he added.

COMMENT

¶13. (C) The successful second IMF review of Iraq's SBA triggering the final tranche of Iraq's Paris Club Debt forgiveness is a significant, but easy step forward in setting Iraq's financial house in order. The steps that Iraq has taken with countries such as Poland and China are also important as resolving its debt with non-Paris Club member countries demonstrates that Iraq is serious about putting its financial house in order. Solutions to its debt with countries like Saudi Arabia and Kuwait will only come when the underlying political issues are resolved. Resolution of Iraq's sovereign debts will prove to be all the more important should oil prices remain low for the long term, and Iraq need to seek loans to continue the rebuilding of its economy and infrastructure.
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